

Chapter 3

Intangible assets

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CREATING GREAT OUTCOMES

through professional qualification training
and study abroad services and preparation

Main contents

- ◆ Recognition criteria of intangible assets (IAS38)
- ◆ Measurement of intangible assets (IAS38)

◆ IAS38 Intangible Assets

➤ Definition

An intangible asset is an **identifiable non-monetary** asset **without physical substance**. 没有物理形态、非现金形式

➤ Conditions of being identifiable

- I. It is separable, the asset can be bought or sold separately from the rest of the business
- II. It arises from legal/contractual rights-this will arise as part of purchasing an entire company. (goodwill) 合同

➤ Examples

External goodwill, patent (专利权), copyright (版权), license, quotas, brand names, trademarks 取照
商标

➤ Recognition

- I. Meet the definition of an intangible asset
- II. Probable future economic benefits attributable to the assets will flow to the entity.
- III. The cost can be measured reliably.

➤ Initial measurement

- I. Purchased intangible assets are measured at cost initially.
- II. Acquired in a business combination, use FV at the date of acquisition;
fair value 公允价值

➤ Subsequent measurement

✓ Cost model (used more often)

Cost less accumulated amortization & impairment

✓ Revaluation model

FV less accumulated amortization & impairment

Note: Fair value is determined by reference to an **active market**.
(homogeneous/identical market, willing buyers& sellers at any time, prices are available to the public) 股价. 许多同样的商品在交易 (identical)、同样资产不断买卖

In practice such markets are rare, IAS 38 specifically prohibit the revaluation of patents, brand names, trademarks and publishing rights.!

➤ **Amortization & impairment** 摊销 减值 有明确使用寿命

- I. An intangible asset with **a finite useful life** must be **amortized** over that life, normally using the straight-line method with a zero residual value.
不清楚、不明确的, 而不是无限的. 无法摊销, 做减值测试
- II. An intangible asset with an **indefinite useful life** should **not be amortized**, but should be tested for **impairment annually**.
- III. Amortization begins when the asset is available for use.

capitalized {
Dr: P/L
Dr: Intangible assets
Cr: Cash

R&D

Research

Investigate, design, marketing

Development

(Internally generated IA) 唯一的

Written off
as expense
to P/L

- (1) Probable future economic benefits
- (2) Intention to complete and use/sell 完成意愿
- (3) Available resources to 人、钱 complete and use/sell
- (4) Ability to use/sell asset 市场
- (5) Technical feasibility of 技术可行 completing for use/sell
- (6) Reliable measure

Meet all 6
criteria?

If yes:
Capitalize & amortize when commercial production begins

If no:
Expensed 当期费用化

\$100,000 spent on the initial design work of a new product- it is anticipated that this design will be taken forward over the next two years and it'll be developed and tested with a view to production in three years time.

Solution:

The research costs in the early design stage should be written off.

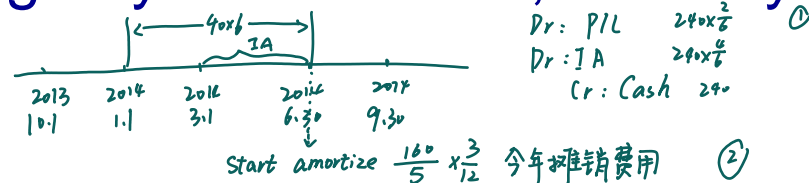
\$500,000 spent on the testing of a new production system which has been designed internally and which will be in operation during the following year. The new system will reduce the production costs by 20%.

Solution:

This cost is in the development stage and production system is due to be in place fairly soon and will bring economic benefits. So it should be capitalized as development.

Simon commenced the development stage of a project to produce a drug on 1 January 2014. Expenditure of \$40,000 per month was incurred until the project was completed on 30 June 2014 when the drug went into immediate production. The directors became confident of the project's success on 1 March 2014. The drug has an estimated life span of five years.

What's the amount will Simon charge to profit or loss for development costs, including any amortization, for the year ended 30 September 2014.



Solution

Costs incurred from 2014.1.1-2014.2.28

Write off as expenditure $2 \times 40,000 = 80,000$

Costs incurred from 2014.3.1-2014.6.30


Capitalize and amortize for 3 months (2014.3.1-2014.9.30)

Amortization expense: $4 \times 40,000 / 5 \times 3 / 12 = 8,000$

Total amount charges in P/L is 88,000

Other IA

e.g., patent, copyright, license

- 
- (1) Separately identifiable
 - (2) Control exist 合同. 法律保护
 - (3) Probable future economic benefits
 - (4) Reliably measure

Meet all 4
criteria?

Finite life

Amortize and impairment

Infinite life

Annual impairment

If yes,
capitalize

If no, normally
expense.

➤ Internally-generated intangibles

Generally, internally-generated intangibles cannot be capitalized, as the costs associated with these cannot be separated from the costs associated with running the business

✓ Never recognized **internally-generated** intangibles

I. Internal goodwill

II. Brands

III. Mastheads 主页、版头

IV. Publishing titles

V. Customer lists 客户清单

Note:

In the case of business consolidation, the internal brand of subsidiary which was not recognized by the subsidiary will be recognized as intangible asset in the consolidated statements.

金额可被可靠计量时, 子公司内部品牌在子公司财务报表上不可确认, 但在合并报表可确认为无形资产

Example

(1) A brand name relating to a specific range of chocolate bars, purchased for \$200,000. By the year end, a brand specialist had valued this at \$250,000.

- I. The brand name is purchased at \$200,000, so it was initially capitalized at the cost of \$200,000.
- II. Revaluation model can only apply when an active market exists, which is unlikely in this case as the brand name will not be a homogeneous item. So the cost model should apply.
- III. If the brand has a definite useful life, amortization should be charged over the life.
- IV. If the brand has no definite life, no amortization is charged, however annual impairment review would be required.

(2) \$500,000 was spent on developing a new line of confectionary. \$150,000 was spent on researching the product, before management gave approval to fully fund the project.

- I. \$150,000 should be expensed in P/L as the management had not displayed either the intention to complete or the release of the resources to complete.
- II. \$350,000 can be capitalized as an intangible asset as development costs.

(3) Training costs for staff to use a new manufacturing process. The total training costs amounted to \$100,000 and staff are expected to remain for an average of 5 years.

The total training costs should be expensed in P/L since the movement of staff cannot be controlled and it is not probable that future economic benefits would flow into the company.

Homework

● Exam kit-Section A

T:16,17,18,19,20,21,

Question Bank
P 33 , P 187